

**STATE OF DELAWARE**  
**OFFICE OF**  
**AUDITOR OF ACCOUNTS**

**DEPARTMENT OF NATURAL RESOURCES  
AND ENVIRONMENTAL CONTROL  
DIVISION OF PARKS AND RECREATION**

**INDIAN RIVER MARINA  
SPECIAL INVESTIGATION**

**FIELDWORK END DATE: JUNE 6, 2007**

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# EXECUTIVE SUMMARY

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## **ALLEGATION**

The Office of Auditor of Accounts (AOA) received a complaint regarding the Indian River Marina (the Marina), a division of the Department of Natural Resources and Environmental Control (DNREC). The allegation questioned the Marina's billing procedures, including double-billings, and cleared checks not posting to a customer's account.

After contacting DNREC, it came to AOA's attention that DNREC had performed an internal investigation regarding various issues at the Marina. DNREC's investigation included personnel problems, timekeeping issues, suspicious SuperCard transactions, and discrepancies between the Marina's established rates and actual charges for the Marina's sales.

## **BACKGROUND**

### **Indian River Marina**

The Indian River Inlet Marina property was purchased by the State of Delaware in June 1971. Prior to the purchase, a privately run marina operated at the site for several decades. The currently existing docks were installed in 1981 and expanded in 1988. In recent years, the Marina has received many upgrades, including new floating docks, a new dry stack storage building, updated fueling facilities, and new vacation rental cottages.

### **SuperCard**

The State of Delaware, through the Department of Administrative Services, contracted with PNC Bank to provide State agencies and school districts with a VISA card program for procurement and/or travel purchases. This SuperCard Program provides purchasing and/or travel options on an individual card.

## **CONCLUSIONS AND OBSERVATIONS**

Per review of the Marina's procedures and transactions regarding fuel, cottage, storage, and dockage sales and SuperCard transactions, the following conclusions were reached:

- The Marina allowed one customer to charge fuel to an account and billed the customer for those charges. For the period May 31, 2005 to December 31, 2006, the Marina could not provide adequate supporting documentation for 92 out of 165 fuel receipts totaling \$37,351 and 27 out of 35 credits totaling \$43,339. Therefore, all of the receipts could not be traced to the customer's account to determine proper billing.
- The Marina Manager prepared and approved various contracts for storage and dockage that were not consistent with the Marina's established rates. Of the 170 contracts reviewed, the rates charged by the Marina totaled \$607,443. Per review of the approved DNREC rate schedules, the total amount charged should have been \$659,185, resulting in approximately \$51,700 in lost revenue for the State.

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# EXECUTIVE SUMMARY

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- DNREC's Division of Parks and Recreation does not have a proper tracking system that details which employees reserved the cottages, when the cottages were reserved, and whether the payments were received.
- For the Rocktoberfest Fishing event, held at the Marina in the fall of 2006, the Marina Manager used his discretion to determine the cottage rates for two vendors, resulting in the assessment of different rates for each.
- The Marina uses a packaged software to maintain customer data, record customer transactions, and prepare customer statements. Based on a review of the software's security settings, the Marina has not set the software to restrict certain users' access. Also, there are limitations in the software that do not allow for accurate calculations of the dockage and storage rates charged to customers. Therefore, the Marina must override certain software fields to correctly charge customers.
- For the period July 1, 2004 to December 31, 2006, AOA reviewed 509 SuperCard transactions. Of those reviewed, 23 transactions totaling \$9,458, were for inappropriate purchases, including \$1,000 for an unauthorized sponsorship and \$1,375 in parasailing rides for Marina Day. In addition, the propriety of 56 transactions, totaling \$20,760, could not be determined based on the information provided by the Marina.
- There were six documented incidences where the Marina Manager approved or added time to seasonal employee time cards for time not worked by those employees. In addition, the Marina Manager consistently recorded compensatory time for time worked but not pre-approved by his supervisor.

Based on the conclusions reached, AOA determined that the Marina does not have the internal control structure in place to ensure revenue and expenditure transactions are processed in accordance with the State of Delaware *Budget and Accounting Manual*.

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# AUDIT AUTHORITY

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Title 29, Del. C. c. 29 authorizes the Auditor of Accounts to file written reports containing:

1. Whether all expenditures have been for the purpose authorized in the appropriations;
2. Whether all receipts have been accounted for and paid into the State Treasury as required by law;
3. All illegal and unbusinesslike practices;
4. Recommendations for greater simplicity, accuracy, efficiency, and economy; and
5. Such data, information, and recommendations as the Auditor of Accounts may deem advisable and necessary.

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# ALLEGATION AND BACKGROUND

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## **ALLEGATION**

The Office of Auditor of Accounts (AOA) received a complaint regarding the Marina, a division of DNREC. The allegation questioned the Marina's billing procedures, including double-billings, and cleared checks not posting to a customer's account.

After contacting DNREC, it came to AOA's attention that DNREC had performed an internal investigation regarding various issues at the Marina. DNREC's investigation included personnel problems, timekeeping issues, suspicious SuperCard transactions, and discrepancies between the Marina's established rates and actual charges for the Marina's sales.

## **BACKGROUND**

### **Indian River Marina**

The Indian River Inlet Marina property was purchased by the State of Delaware in June 1971. Prior to the purchase, a privately run marina operated at this site for several decades. The currently existing docks were installed in 1981 and expanded in 1988. In recent years, the Marina has received many upgrades, including new floating docks, a new dry stack storage building, updated fueling facilities, and new vacation rental cottages.

### **SuperCard**

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# OBJECTIVES, SCOPE, & METHODOLOGY

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## **OBJECTIVES**

The objectives of this investigation were:

1. To determine if fuel, cottage, storage, and dockage sales at the Indian River Marina were made in accordance with established rates and procedures and if corresponding payments were properly posted to Customer accounts.
2. To determine the propriety of SuperCard purchases made by the Indian River Marina.
3. To determine if the Marina has the internal control structure in place to ensure revenue and expenditure transactions are processed in accordance with the State of Delaware *Budget and Accounting Manual*.

## **SCOPE**

The investigation covered the period July 1, 2004 through December 31, 2006. AOA reviewed various transactions processed by the Marina, including fuel, cottage, storage, and dockage sales and purchases made using the State SuperCard.

The investigation was performed in accordance with the President's Council on Integrity and Efficiency, *Quality Standards for Investigations*.

## **METHODOLOGY**

The techniques used in this investigation included:

- Interviews and inquiry.
- Inspection and documentation.

The investigation consisted of the following procedures:

- Identify and summarize the Marina's policies and procedures related to the revenue generation process and SuperCard purchases.
- Obtain and review supporting documentation for both Marina sales and SuperCard purchases made by the Park Superintendent.

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# CONCLUSIONS

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Per AOA's review of the Marina's procedures and transactions regarding fuel, cottage, storage, and dockage sales and SuperCard transactions, the following conclusions were reached:

- The Marina allowed one customer to charge fuel to an account and billed the customer for those charges. For the period May 31, 2005 to December 31, 2006, the Marina could not provide adequate supporting documentation for 92 out of 165 fuel receipts totaling \$37,351 and 27 out of 35 credits totaling \$43,339. Therefore, all of the receipts could not be traced to the customer account to determine proper billing.
- The Marina Manager prepared and approved various contracts for storage and dockage that were not consistent with the Marina's established rates. Of the 170 contracts reviewed, the rates charged by the Marina totaled \$607,443. Per review of approved DNREC rate schedules, the total amount charged should have been \$659,185, resulting in approximately \$51,700 in lost revenue for the State.
- DNREC's Division of Parks and Recreation does not have a proper tracking system that details which employees reserved cottages, when cottages were reserved, and whether payments for the rentals were received.
- For the Rocktoberfest Fishing event, held at the Marina in the fall of 2006, the Marina Manager used his discretion to determine the cottage rates for two vendors, resulting in the assessment of different rates for each.
- The Marina uses a packaged software to maintain customer data, record customer transactions, and prepare customer statements. Based on a review of the software's security settings, the Marina has not set the software to restrict certain users' access. Also, there are limitations in the software that do not allow for accurate calculations of the dockage and storage rates charged to customers. Therefore, the Marina must override certain software fields to correctly charge customers.
- For the period July 1, 2004 to December 31, 2006, AOA reviewed 509 SuperCard transactions. Of those reviewed, 23 transactions totaling \$9,458, were for inappropriate purchases, including \$1,000 for an unauthorized sponsorship and \$1,375 in parasailing rides for Marina Day. In addition, the propriety of 56 transactions, totaling \$20,760, could not be determined based on the information provided by the Marina.
- There were six documented incidences where the Marina Manager approved or added time to seasonal employee time cards for time not worked by those employees. In addition, the Marina Manager consistently recorded compensatory time for time worked but not pre-approved by his supervisor.

Based on the conclusions reached, AOA determined that the Marina does not have the internal control structure in place to ensure revenue and expenditure transactions are processed in accordance with the State of Delaware *Budget and Accounting Manual*.



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# FINDINGS AND RECOMMENDATIONS

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## ***Finding – Fuel Charges:***

The Marina allowed one customer to charge fuel purchases to an account. This customer is the only Marina customer with this privilege. Employees of the customer purchase fuel at the Marina fuel dock and sign a receipt kept by the Marina. The Marina, however, does not maintain signature cards for those employees allowed to charge fuel. The Marina accumulates these charges and sends an invoice to the customer periodically for the amount owed. For the period May 31, 2005 to December 31, 2006, the Marina could not provide adequate supporting documentation for 92 out of 165 fuel receipts totaling \$37,351 and 27 out of 35 credits totaling \$43,339. Therefore, all of the receipts could not be traced to the customer account to determine proper billing.

According to the State of Delaware *Budget and Accounting Manual*, Chapter 8, Section B1, "Each agency shall keep a detailed ledger of all receipts under such appropriate headings, classifications and arrangements as prescribed by the Budget Director... All invoices, bills, [etc.] pertaining to these receipts shall be preserved and systematically filed by each agency."

As a result of the lack of supporting documentation, there is an increased risk of misappropriation of assets and incorrect financial reporting.

## ***Recommendation:***

The Marina maintain adequate supporting documentation for all financial transactions.

The Marina refrain from showing preferential customer treatment to the customer by discontinuing their fuel charging privileges.

## ***Auditee Response:***

In 2005, the former Marina Manager extended credit to customers without authorization. Once aware, the Division ensured that all credit balances were collected and the practice was discontinued for all but one customer. The Division discontinued the charging privileges for that customer, Tow Boat US, effective May 18, 2007. A copy of the letter notifying the owner is attached. [AOA has reviewed the letter; it is not attached to the report.]

In June 2006, the Division changed from hand written fuel sales receipts to a point of sale computer-generated receipt. The computer-generated receipt did not identify and require a signature from the customer.

On February 21, 2007, Park Administrator Ken Farrall implemented a new procedure for all fuel dock point of sale purchases. This change requires that fuel dock attendants record the name of the boat or registration number, and the name of owner or captain who is paying for the fuel. The employee who sold the fuel is also required to initial the receipt. A copy of that procedure is attached. [AOA has reviewed the procedure; it is not attached to the report.]

All fiscal records are archived in the park office and in the central office for the Division of Parks and Recreation for one fiscal year. The Division is in the process of researching and locating the missing receipts. This was not possible due to the short turn around period during the auditors review.

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# FINDINGS AND RECOMMENDATIONS

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## ***Finding – Inconsistent Dockage and Storage Rates:***

DNREC establishes rates for the dry stack storage facility and wet slips at the Marina. Of the 170 contracts reviewed, the rates charged by the Marina totaled \$607,443. Per review of the DNREC rate schedules, the total amount charged should have been \$659,185, resulting in approximately \$51,700 in lost revenue for the State. Certain customers received discounted or prorated rates, while others did not. Discounts and prorated rates are not included in the DNREC established rates and procedures. Therefore, 45 out of 170 contracts were not made in accordance with DNREC policy. Of the 170 contracts, 118 were signed by the Marina Manager. In addition, 22 out of 170 contracts were not required to be signed by any Marina personnel as there were continuing contracts; however, they may contain incorrect rates carried forward from previous years.

According to Delaware Code, Title 7, Chapter 47, Subchapter I, §4701(a)(5)(A), "The Department of Natural Resources and Environmental Control may ... establish and collect such user charges, which shall approximate and reasonably reflect all costs necessary to defray the expenses of the Department for the use of the facilities and services it provides in areas it administers."

Consequently, the Marina is showing preferential treatment to certain customers, resulting in lost revenues for the State.

## ***Recommendation:***

The Marina comply with the established rate schedule to avoid showing preferential treatment to certain customers.

## ***Auditee Response:***

The Division has a clearly defined policy for all fees and charges. The charges were not adhered to by the former Marina Manager. The Division became aware of preferential treatment and began an internal investigation prior to the audit.

To ensure that the proper rates are charged for all dockage, the Division will revise the existing contracts to add an additional signature line that will require the Park Administrator to sign beginning in calendar year 2008. In the interim, the Park Administrator will review and approve all contracts. The current contract requires only the Indian River Marina Manager's signature.

To determine the proper dry storage dockage rate, the Division uses length over all (LOA) of the boat. This number is verified against the boat owner's insurance policy to ensure compliance. This eliminates a boat owner being charged more or less than the actual space used by the boat while in rack storage.

Wet slip dockage rates are established based on the length of the slip rather than the length over all (LOA). This is an industry standard for wet slip rentals.

Published rates are to be adhered to for all customers. Discounts can only be authorized by the Division Director or his designee.

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# FINDINGS AND RECOMMENDATIONS

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## ***Finding – Software Package:***

The Marina uses a packaged software to maintain customer data, record customer transactions, and prepare customer statements. Based on a review of the security settings for the software, the Marina has not set the software to restrict certain users' access. Also, there are limitations in the software that do not allow for accurate calculations of the dockage and storage rates charged to customers. Therefore, the Marina must override certain software fields to correctly charge customers.

The State of Delaware *Budget and Accounting Manual*, Chapter II, states, "One of the basic and most successful methods of achieving internal control is through the segregation of duties. The segregation of duties divides the responsibility for a transaction or activity among different parties so that no one employee has complete control over the processing of transactions. This method of control increases the likelihood that if one person makes an error, another will discover it. Segregation of duties also reduces the risk that one person would perpetrate and/or conceal errors in the normal course of his or her duties."

The incomplete software setup and limitations within the software could cause control issues, such as a lack of segregation of duties and lack of management review, which could result in the misappropriation of assets.

## ***Recommendation:***

The Marina tighten the controls surrounding the software in order to restrict users' access and minimize the effects of the software limitations.

## ***Auditee Response:***

To ensure a clearly defined segregation of duties, the Administrative Specialist will advise and seek approval from the Assistant Marina Manager or Marina Manager for any changes or adjustments within the Dockmaster marina software package. Any change that is made in the customer's account will be approved by the managers, documented, and a printed copy will go in the customer's file. This change will ensure a segregation of duties.

Dockmaster marina software package has a password protection on fields in the Point of Sale (POS) module to discourage discounts. This safeguard only permits a manager to implement a discount or override an established rate in the POS, and prevents any arbitrary discounts by non-management staff.

Dockmaster marina software package also provides a security feature that can block employees from accessing certain modules and pages. This safeguard has been implemented for all staff except for Park Marina management and the Administrative Specialist. These three employees have access to all modules within Dockmaster.

The Division will continue to utilize launch master, customer inventory, and virtual marina features of Dockmaster. Further evaluation and analysis is being conducted to determine if the POS module will be used, replaced or supplemented with a new accounting software package.

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# FINDINGS AND RECOMMENDATIONS

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## ***Finding – Employee Cottage Rentals:***

DNREC allows DNREC employees to rent the Indian River Marina cottages at a 50% discount. The Marina generally uses an outside vendor to process the cottage reservations; however, that vendor is unable to factor the employee discount when making employee reservations. Therefore, employees must contact a designated Management Analyst III at DNREC to make reservations. Employees then have the option to pay the accounting section of the Division of Parks and Recreation Office or the Marina directly. An additional tracking system is not utilized to monitor employee reservations and payments. As a result, the Marina is unable to easily provide a list of which employees reserved the cottages, when the cottages were reserved, and whether the payments were received.

*Internal Control - Integrated Framework*, published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), defines controls activities as "...policies and procedures that help ensure management directives are carried out... Control activities occur throughout an organization, at all levels and functions. They include a wide range of activities as diverse as approvals, authorizations, verifications, reconciliations, reviews of operating performance, security of assets, and segregation of duties." In addition, the State of Delaware *Budget and Accounting Manual*, Chapter 8, Section B1, states, "Each agency shall keep a detailed ledger of all receipts under such appropriate headings, classifications and arrangements as prescribed by the Budget Director."

As a result of inconsistent practices, there is a weakness in internal controls.

## ***Recommendation:***

The Marina and DNREC develop a tracking system for employee reservations of Marina cottages and the subsequent receipt of payments for those reservations.

## ***Auditee Response:***

The Division has an established policy that permits employees to reserve the cottages at a discounted rate during the shoulder and off-season periods (copy attached). [AOA has reviewed the policy; it is not attached to the report.]

There are certain restrictions; specifically, discounted reservations would not be permitted more than two weeks in advance of arrival dates. The policy clearly allows for the public to have first opportunity to rent the cottages, before they are offered at a discount to employees. This practice enables the Division to generate revenue on what otherwise would be a vacant cottage.

The Division is developing a more comprehensive spreadsheet to track all reservations made by employees. All payments must be made at the Indian River Marina office and will be processed with their daily report of receipts. This spreadsheet will be available for easy access and audit by designated Division staff.

Effective January 1, 2008, the Division's central reservation system company used for all campsites and cottages, InfoSpherix, will begin processing reservations for employees. Employees will be required to make payment for their stay at the time a reservation is made. This will provide adequate tracking of all reservation and payment transactions with InfoSpherix and follow the same process used by the public.

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# FINDINGS AND RECOMMENDATIONS

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The Division is also developing policies for promotional stays, special events, marketing, discounts and complimentary rentals. All of these reservations will be processed through InfoSpherix. The Division Director will have the final approval on discounted cottage rates. This will no longer be at the discretion of the Indian River Marina Manager or any other staff person except the Division Director.

The Division will also amend the Special Events permit to allow for the Director's approval for any discounted rate for special events held at the Indian River Marina.

***Finding – Inconsistent Cottage Rates:***

DNREC's Division of Parks and Recreation establishes rates for renting the cottages located at the Marina. Per Marina policy, a special flat rate may be used for vendors during special events if approved by DNREC management. However, during the Rocktoberfest Fishing event at the Marina in the fall of 2006, the Marina Manager offered different discounted rates to vendors. One vendor was charged \$250 for use of one cottage, while another vendor was charged \$150 for the use of another. These rates were established at the Marina Manager's discretion without proper approval.

According to Delaware Code, Title 7, Chapter 47, Subchapter I, §4701(a)(5)(A), "The Department of Natural Resources and Environmental Control [DNREC] may ... establish and collect such user charges, which shall approximate and reasonably reflect all costs necessary to defray the expenses of the Department for the use of the facilities and services it provides in areas it administers." Also, Indian River Marina Revenue Procedures states that the Marina Manager may set flat rates for vendors during special events; however, these rates must be discussed and approved by DNREC management.

Therefore, the Indian River Marina is showing preferential treatment to certain vendors, resulting in lost revenues for the State.

***Recommendation:***

The Marina comply with the established rate schedule and procedures to avoid showing preferential treatment to certain vendors.

***Auditee Response:***

The Division is developing a policy for promotional stays, special events, marketing, discounts and complementary rentals. All reservations will be processed through InfoSpherix.

Unless authorized by the Division Director, there will not be any deviation from the established rates.

***Finding – Inappropriate SuperCard Charges:***

AOA reviewed all SuperCard transactions for the Marina Manager and two Marina staff for the period July 1, 2004 to December 31, 2006. Out of the 509 SuperCard transactions reviewed, 23 of those transactions, totaling \$9,458, were for inappropriate purchases, including \$1,000 for an unauthorized sponsorship and \$1,375 in parasailing rides for Marina Day. In addition, the purpose of 56 transactions, totaling \$20,760, could not be determined based on the information provided by the Marina. Therefore, the propriety of the SuperCard transactions cannot be determined.

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# FINDINGS AND RECOMMENDATIONS

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The DNREC VISA SuperCard Policy states, "The supervisor of each cardholder shall be responsible for the overall administration of their employees card use and for the security of each card." It also states that, "Each Division's Accounting Office will insure all purchases and payments are made in accordance with applicable laws and regulations pursuant to Delaware Code Title 29."

The lack of supporting documentation and absence of management review increases the risk of misappropriation of assets.

***Recommendation:***

The Marina tighten controls over SuperCard transactions.

***Auditee Response:***

On April 28, 2005, the State Auditors office recommended that the Division develop a new purchase log that requires the approval and signature of the supervisor(s). This change was implemented and has been followed by all Division staff since that time. The Division's fiscal section monitors and ensures that all purchase logs have a supervisor's signature approving the transactions.

The Indian River Marina staff use the appropriate Purchase Ledger. In the future, they will maintain all transaction receipts and copies of the signed ledger at the Marina office. The supervisor(s) are reviewing every individual purchase transaction more closely.

Future incidents with inappropriate purchases, lack of documentation or not utilizing the approved purchased ledger will result in the cancellation of SuperCard privileges and immediate disciplinary action. The Division is reviewing cost recovery options for all inappropriate purchases.

***Finding – Incorrect Timekeeping:***

DNREC establishes policies and procedures for timekeeping by employees; however, the Marina does not abide by the procedures set forth by the Department. There were six documented incidences where the Marina Manager approved or added time to seasonal employee time cards for time not worked by those employees. In addition, the Marina Manager consistently recorded compensatory time for time worked, but not pre-approved by his supervisor. Consequently, the Marina is not in compliance with DNREC timekeeping policies and procedures.

The Department of Natural Resources and Environmental Control (DNREC) Procedures for Time Management states, "It is essential that the Department follow consistent procedures with respect to approving and recording time... Ensuring that all employees use their time according to the Merit Rules and established Departmental procedures is the responsibility of the immediate supervisor." Also, the DNREC Procedures for Overtime/Compensatory Time Policy states, "All overtime situations must be pre-approved by the employee's supervisor."

As a result of inconsistent timekeeping practices, there is a weakness in internal controls.

***Recommendation:***

The Marina abide by the Procedures for Time Management and Procedures for Overtime/Compensatory Time Policy set forth by DNREC.

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# FINDINGS AND RECOMMENDATIONS

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***Auditee Response:***

The Division conducted an internal investigation and identified the violations of seasonal time cards being changed by the former Marina Manager and took administrative action to address this issue in January 2007.

The Division became aware of Marina staff's failure to follow Department timekeeping policies in March 2005. This issue was addressed with the former Marina Manager at multiple meetings and with written documentation; however, there was never consistent compliance with the Overtime/Compensatory Time Policy. The Division took administrative action to remediate the situation in January 2007.

Currently, all compensatory time is being entered into ALAS and tracked by the Marina's timekeeper.

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# DISTRIBUTION OF REPORT

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Copies of this report have been distributed to the following public officials:

Executive

The Honorable Ruth Ann Minner, Governor, State of Delaware

The Honorable John Hughes, Secretary, Department of Natural Resources and Environmental Control

Legislative

The Honorable Russell T. Larson, Controller General, Office of the Controller General

Other Elective Offices

The Honorable Joseph R. Biden, III, Attorney General, Office of the Attorney General

Other

Mr. Charles A. Salkin, Director of Parks and Recreation, Department of Natural Resources and  
Environmental Control

Mr. David Small, Deputy Secretary, Department of Natural Resources and Environmental Control